

Melia Hotels

Price EUR10.69

Feedback call: Stronger top line, EBITDA slightly disappointing. RevPAR guidance upgraded.

Fair Value EUR15 (+40%)

BUY-Top Picks

Bloomberg	MEL.SM
Reuters	MELL.MC
12-month High / Low (EUR)	13.7 / 8.4
Market Cap (EUR)	2,127
Ev (BG Estimates) (EUR)	2,615
Avg. 6m daily volume (000)	735.9
3y EPS CAGR	47.5%

Top-line growth was ahead of expectations with total revenue up 8% at EUR399m (consensus at EUR389m) after RevPAR rose 10.7% (6.8% anticipated). Despite this, EBITDA improved by only 5% to EUR65.5m (in line with consensus) affected by the digital plan (not yet fully detailed) and the ramp-up in new openings under lease contracts. The outlook remains bright especially in Spain and management now expects a mid-to-high single-digit RevPAR increase for 2016, versus mid-single digit previously. Positive.

	1 M	3 M	6 M	31/12/15
Absolute perf.	4.4%	17.1%	-18.1%	-12.3%
Travel&Leisure	-2.9%	-2.2%	-11.8%	-13.1%
DJ Stoxx 600	0.3%	1.8%	-12.7%	-9.3%

ANALYSIS

- **Strong top line growth...**: With RevPAR up 10.7%, including a significant 21% rebound in Spain (RevPAR in the Mediterranean region was up 37.4% and 10.1% in Spain cities), consolidated revenue reached nearly EUR400m with room revenues up 9% for owned and leases hotels and up 14% for hotels under management contracts. By region, although Spain registered a strong RevPAR, the environment was more challenging in the Americas due to weather conditions in feeder markets for the Caribbean, especially the US and Canada, a depreciation in the CAD and the Zika impact causing reservations to be postponed. In EMEA, the situation in France remained "very difficult" and to a lesser extent in the UK while Italy and Germany performed well.
- **...not totally reflected in EBITDA**: Undoubtedly with such top line numbers we are a bit disappointed by EBITDA growth of 5% to EUR65.5m. In fact, EBITDA was impacted by rental expenses up 21.5% linked to significant new openings during Q1 i.e. Melia La Defense, Ininside Manchester, Ininside New York, etc... (EBITDAR was up 9.3%) and the digital plan recently launched with an impact of more than EUR3m (FY 2016 OPEX impact should represent between EUR12m and EUR15m. The digital plan has not yet been fully detailed).
- **FY 2016 RevPAR guidance upgraded**: Despite some headwinds notably from America during the low season (Q2 and Q3) and from France, management remains very positive on Spain in Mediterranean resort with bookings for the summer season ahead of last year and in Spanish cities. In all, Melia now anticipates mid-to-high single digit RevPAR growth vs. mid-single digit previously. Our forecast is based on 6.6% RevPAR growth. The pipeline remains strong with 62 hotels and almost 16,000 rooms at the end of March, representing over 20.4% of current portfolio.

YEnd Dec. (EURm)	2015	2016e	2017e	2018e
Sales	1,738	1,827	1,970	2,113
% change		5.1%	7.8%	7.3%
EBITDA	293	277	314	350
EBIT	164.1	171.4	199.0	224.4
% change		4.5%	16.1%	12.8%
Net income	36.1	76.3	111.9	133.3
% change		111.4%	46.6%	19.1%

	2015	2016e	2017e	2018e
Operating margin	9.4	9.4	10.1	10.6
Net margin	2.1	4.2	5.7	6.3
ROE	3.1	4.8	6.7	7.7
ROCE	5.2	5.2	5.8	6.3
Gearing	58.5	28.8	30.2	29.5

(EUR)	2015	2016e	2017e	2018e
EPS	0.19	0.37	0.53	0.62
% change	-	91.5%	42.3%	17.8%
P/E	55.1x	28.8x	20.2x	17.2x
FCF yield (%)	5.3%	1.1%	2.1%	3.5%
Dividends (EUR)	0.03	0.06	0.07	0.07
Div yield (%)	0.3%	0.6%	0.6%	0.7%
EV/Sales	1.7x	1.4x	1.3x	1.3x
EV/EBITDA	9.9x	9.4x	8.4x	7.6x
EV/EBIT	17.6x	15.3x	13.3x	11.8x

VALUATION

- Remember that the company announced its decision to force the conversion of convertible bonds representing EUR250m in early Q2. Acting on total requests by delivering a combination of treasury shares and newly-issued shares, the company will issue 30.6m new ordinary shares during May to reach a total number of 229.7m. Note that at the end of Q1, net debt was broadly flat vs. last year at EUR780.8m with an average interest rate of 3.9% vs. 4.8% last year. Financial expenses were down EUR3.6m in Q1 2016 to EUR10m.
- At the current share price, the stock is trading on 2016e and 2017e EV/EBITDA multiples of 9.4x and 8.4x respectively compared with an EBITDA 2015-2018 CAGR of 12.5%

NEXT CATALYSTS

- H1 2016 results at the end of July

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